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Op-ed: Mortgage relief
By Rep. Brad Miller (D-N.C.)

The economic fallout from the foreclosure crisis has barely begun.

The Census Bureau estimates that 69.2 percent of American families owned their own homes in the second quarter of 2004, and 67.9 percent owned their own homes in the third quarter of 2008. The number will go much lower.

In 2006, about 2.5 million families were "underwater," or owed more on their mortgages than their homes were worth. According to Credit Suisse, 8.1 million families will lose their homes to foreclosure by the end of 2012, almost one mortgage in five, and perhaps as many as 10.2 million families could lose their homes to foreclosure if the recession becomes severe, a frighteningly real possibility.

Lenders can foreclose on unpaid mortgages even if the borrower has sold the home, so underwater borrowers are stuck: they cannot refinance or sell their home, even to take a new job in another town.

Vacant foreclosed homes are stigmatizing neighborhoods and pushing down home values, and priced-to-sell foreclosed homes are flooding real estate markets around the country. The retreat in home prices has become a rout, and foreclosures have become an epidemic.

Families that lose their homes to foreclosure lose their membership in the middle class, probably forever, and almost all middle-class homeowners are seeing their life's savings evaporate with the collapse of their home's value.

Voluntary mortgage modifications by lenders are not even touching the foreclosure problem.

This week I introduced H.R. 225, the Emergency Homeownership and Equity Protection Act. The legislation would amend the current bankruptcy law to allow bankruptcy courts to modify home mortgages in a predictable, orderly and fair way, imposing on lenders the modifications they should be making voluntarily.

Senate Majority Whip Dick Durbin (D-Ill.) introduced similar legislation, as has Rep. John Conyers Jr. (D-Mich.). By acting quickly, Congress can save millions of families from foreclosure.

The bankruptcy law already allows modification of terms on vacation homes, boats, cars, investment properties — only home mortgages are exempt from modification.

Lenders make the Alice in Wonderland argument that the law provides so little protection of homes in bankruptcy because we value homeownership so much. Allowing bankruptcy courts to modify home mortgages would make mortgages less available and more expensive, they argue.

The argument is politically powerful, but the evidence for it is thin. In fact, the treatment of assets in bankruptcy has had little effect on credit, or at least it did in the old days when lenders paid some attention to the borrowers' ability to pay.

Reforming mortgage bankruptcy laws is the only remedy that will provide the stick to go with the many carrots that we have offered lenders to modify mortgages voluntarily. We know it will work. And we need something to work right away.

Miller is a member of the House Financial Services Committee.